2006 Annual Report

Message to Shareholders

Introduction

Homeserve Technology Inc. (“Homeserve”) announced net income of $7.4 million for the 12 months ended February 28, 2006 as compared to net income of $8.8 million for the 12 months ended February 28, 2005, which resulted in income available to common shareholders of $0.80 per share, after the payment of preferred share dividends, compared to $1.83 per share, after the payment of preferred share dividends, in the previous year. The most significant elements contributing to the $1.4 million year-over-year decrease in net income was a $3.4 million decrease in income tax recovery and a $0.6 million decrease in the gains realized on the sale of certain holdings within the Company’s investment portfolio, partially offset by a $1.8 million increase in contribution margin generated from the ICON operations due to increased file activities.

ICON

In April 2004, the Company acquired Centract’s Residential Property Service’s (“Centract”) ICON software and entered into licensing arrangements, among other matters with Centract. ICON is a customizable software application that manages all aspects of a residential home relocation. Centract uses the ICON Software to manage approximately 400 of Canada’s largest companies’ employee relocations as well as members of the Department of National Defense, the RCMP and the Treasury Board of Canada. Centract services approximately 21,000 new relocation files per year.

During the year ICON licensing and consulting (“ICON”) activities generated $10.4 million in revenue from the underlying relocation and asset recovery license agreements and consulting services, up 24% from 2005. The underlying relocation and asset recovery file activity was slightly ahead of management’s expectations and ahead of prior year activity as the ICON contract did not start until April 2004. Operating costs in the amount of $1.0 million comprised of staffing, selling, premises and administrative costs associated with nine development and support personnel were in line with management’s expectations.

Home-Link Operations

Home-Link’s move services offering in its present form continues to experience an overall decline in its operations. For the 12 months ended February 28, 2006, Home-Link’s operations generated a contribution margin loss of $0.4 million as compared to a contribution margin loss of $0.6 million for the same period of fiscal 2005. The decrease in the overall loss of $0.2 million was due primarily to reduced staffing levels.

Other Technology

We continue to actively engage a number of potential financial and retail clients in developing viable business applications for the use of the Home-Link’s underlying CRM applications. In addition, we continue to seek and develop opportunities to further incorporate the functionality of CALMS into our existing and future product offerings.

Outlook

While markets for software remain uncertain, we are optimistic that the sustainable stable cash flows from the ICON acquisition combined with licensing opportunities from the Company’s CRM software and move services program model, will position the Company well for the future growth.

On behalf of the Company, I want to thank you for your continued support.

Sincerely,

James B. Dunbar
President and Chief Executive Officer

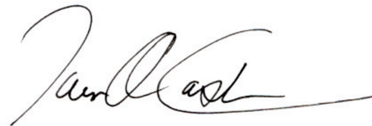
Management's Report to Shareholders

The accompanying financial statements and other financial information have been prepared by the Company's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate. These policies and procedures are designed to provide a high degree of assurance that relevant and reliable financial information is produced.

These financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this annual report is generally consistent with the information contained in the accompanying financial statements. Ernst & Young, LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 23 through 38 in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on page 24.

The financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the Committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Toronto, Canada
May 17, 2006



James B. Dunbar

President and Chief Executive Officer

Kevin Cash

Chief Financial Officer

Management's Discussion and Analysis

of Financial Condition and

Results of Operations

For the year ending February 28, 2006

Management's Discussion and Analysis of Results and Financial Condition

The following Management's Discussion and Analysis of Results and Financial Condition ("MD&A") of Homeserve Technologies Inc. ("Homeserve" or the "Company") covers the period from March 1, 2005 to February 28, 2006. This MD&A has been prepared as at May 17, 2006. This MD&A should be read in conjunction with our audited consolidated financial statements for the 12 months ended February 28, 2006. Additional information, including the Company's Annual Audited Financial Statements, Annual Information Form and Management Information Circular, are available on the Company's website at **www.homeserve.ca** or on SEDAR's website at **www.sedar.com**. External economic and industry factors remain substantially unchanged, unless otherwise noted.

Homeserve is a technology company focused on the development and application of proprietary software solutions. Our focus is to increase shareholder value through the leveraging of our technology expertise and the development, acquisition and integration of proprietary software solutions to create profitable businesses comprised of, transaction fee-based services, licensing fee-based software solutions and consulting fee-based software development and support activities. Homeserve's largest shareholder and customer, which owns 48% of the common shares and all of the preferred shares of the Company, is Brookfield Asset Management Inc. operating through certain subsidiaries as Centract Residential Property Services ("Centract"), its residential real estate services division.

Homeserve's software solutions are comprised of (i) CARE II Customer Relationship Management software ("CARE II CRM"), from which we currently earn transaction-based fees from our Home-Link operations, (ii) our co-ownership of the Credit Adjudication & Lending Management System ("CALMS"), from which we earn licensing fees and (iii) ICON software and its development and support personnel, which we acquired on April 13, 2004 and from which we earn licensing and consulting fees. As at the date of this MD&A, these operations are supported by 15 personnel and Centract's shared management services platform.

Currently, Homeserve is not listed for trading on any recognized stock exchange. As Homeserve is not listed on a stock exchange a shareholder's ability to buy or sell shares is limited.

Operations Overview

In April 2004, the Company acquired Centract's ICON software and entered into licensing arrangements, among other matters (see "ICON Transaction"). ICON is a customizable software application that manages all aspects of a residential home relocation. This transaction provides a substantial opportunity for the Company to increase shareholder value through the re-licensing and sale of the software to non-North American markets and the provision of additional functionality and consultative services, for a fee. Currently, the only licensees for the ICON software are divisions of Centract.

In April 2003, Home-Link acquired, for US$100,000, a permanent, exclusive, royalty-free, transferable, license to use its CARE II CRM software in Canada and to sub-license its use to others in Canada. As a result of this transaction, Home-Link saved over US$220,000 per year in license payments. The Company considers this both a significant financial saving for the Company and an opportunity to market its CARE II CRM solutions to banking and retail companies. As such, we are currently in discussions with a number of Canadian financial institutions and retail companies to commence pilot operations, which will allow us to demonstrate the ability of CARE II CRM software to better manage their respective mortgage portfolios and customer base.

During fiscal 2004, Home-Link's operations were downsized to better align with current transaction volume levels with a view to increasing operations as greater adoption of existing program offerings occur or as volumes are increased through new CARE II CRM initiatives. Substantially all of Home-Link's revenue is generated from Centract or supplier transaction fees derived from the Centract relationship. Centract was contracted to utilize Home-Link's services to June 30, 2005, and has not renewed the contract, but continues to utilize these services on a limited basis.

During the month of November 2004, the sole licensee of our CALMS software gave notice of its intention to discontinue the use of our CALMS software product by the end of 2004. For the current year we have recorded revenue of $nil and in the prior fiscal year we recorded revenue of $10,000 from our CALMS software product. While we currently have no agreements in place for the use of CALMS, we continue to seek opportunities to further incorporate the functionality of CALMS into our existing and future product offerings.

Results of Operations : Fourth Quarter 2006 Compared to Fourth Quarter 2005

($ thousands, except per share amounts)	**Three months ended February 28, 2006**	Three months ended February 28, 2005
Revenue	**1,726**	2,046
Operating costs	**880**	676
Contribution margin	**846**	1,370
Investment income	**337**	266
Gain on sale of investments	**32**	—
Amortization	**(82)**	(571)
Net income for the period before income tax	**1,133**	1,065
Income tax recovery/(expense)	**(200)**	3,200
Net income for the period	**933**	4,265
Basic and diluted earnings (loss) per common share		
Basic	**$ (0.60)**	$ 0.96
Diluted	**$ (0.30)**	$ 0.48

As summarized in the chart above, the Company reported net income of $0.9 million for the quarter ended February 28, 2006 (the "Quarter") as compared to income of $4.3 million for the three months ended February 28, 2005. After the payment of preferred share dividends for the three months ended February 28, 2006 this represents a basic loss to common shareholders of $0.60 per share and a diluted loss of $0.30 per share, as compared to basic earnings per share of $0.96 and diluted earnings of $0.48 per share for the same period in fiscal 2005. The most significant elements contributing to the $3.3 million quarter-over-quarter decrease in net income were a $0.3 million decrease in ICON operations' contribution margin, and a $3.4 million decrease in income tax recovery. Partially offsetting these amounts were a $0.1 million increase in investment income and a decrease of $0.5 million in amortization due primarily to a management revision of the estimated useful life of the CARE II CRM system from five years to seven years at the end of fiscal 2005. The full year impact of this revision was reflected in the current Quarter's amortization amount. A summary of the contribution margin by business line is summarized in the table below and a more detailed discussion of the quarter-over-quarter results follows.

($ thousands)	**Three months ended February 28, 2006**	Three months ended February 28, 2005
ICON licensing and consulting		
Revenue	**1,722**	1,973
Operating costs	**(273)**	(257)
	1,449	1,716
Software development and licensing		
Revenue	**—**	21
Operating costs	**(106)**	(51)
	(106)	(30)
Home-Link operations		
Revenue	**4**	51
Operating costs	**(103)**	(177)
	(99)	(126)
Other		
General and administration	**(398)**	(190)
	(398)	(190)
Contribution margin		
Revenue	**1,726**	2,046
Operating costs	**(880)**	(676)
	846	1,370

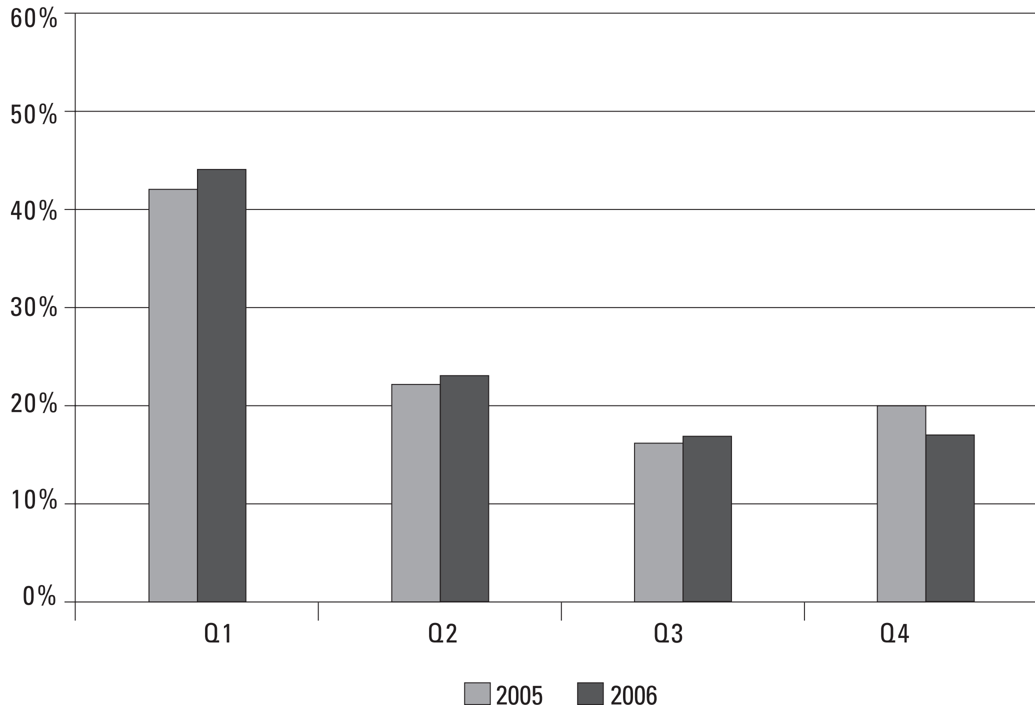
ICON licensing and consulting ("ICON") activities consist of $1.7 million in revenue generated from our contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract, as compared to $2.0 million for the same period of the prior year. The $0.3 million year-over-year decrease is attributed to lower relocation file activity. Of the $1.7 million in revenue for the Quarter, $1.5 million in licensing revenue and $0.2 million in consulting revenue was earned from Centract's relocation business. The underlying relocation and asset recovery file activity for the Quarter was 5% lower than the same period from the prior year. ICON operating costs relate to staffing, selling, premises and administrative costs associated with nine development and support personnel. These costs were in line with management's expectations.

	Three months ended		**Twelve months ended**	
	February 28 2006	February 28 2005	**February 28 2006**	February 28 2005 [1]
Relocation files	**3,479**	3,840	**22,553**	16,559
Asset recovery files	**753**	579	**2,885**	2,241

1. ICON contract commenced April 13, 2004, therefore there are 10.5 months of file activity in the 12 months ended February 28, 2005.

Approximately 57% of the Company's ICON licensing revenues for the Quarter were derived from two significant Centract contracts. These contracts are for the provision of relocation services to the Canadian Department of National Defense, Government of Canada and the Royal Canadian Mounted Police (collectively "G of C Contracts"). During the third quarter of fiscal 2005, Centract was awarded a five-year contract for these contracts commencing on December 1, 2004 with a two-year renewal option. Subsequent to the award of the contract, complaints were filed with the Canadian International Trade Tribunal ("CITT") with respect to the award of this contract and the matter was ultimately forwarded to the Federal Court of Appeal for a ruling. On January 11, 2006, the Federal Court of Appeal ruled on the matter with the net effect to Homeserve being the contracts as awarded to Centract stands. Subsequent to this decision the Office of the Auditor General began an audit of the process for awarding the Relocation Services Government Relocation contract. The audit is being conducted at the request of the Standing Committee on Public Accounts. While the scope of the audit is not clear, discussions with the audit team suggest that the process for awarding the contracts will be the focus. The result of the audit is expected to be tabled in Parliament in November 2006.

Approximately 98% of the anticipated annual ICON licensing fees are derived on a per new file opened basis from Centract's relocation business, where a file represents a new transferee. The underlying estimated annual relocation file activity for our ICON licensing revenue on an annualized basis is derived as 72% from the G of C Contracts and the balance from over 400 corporate clients. The relocation file activity is subject to variability between quarters as to each client's relocation timing, business and budget considerations, all of which are outside the control of the Company and Centract. A summary of the variability in file counts for a rolling 12-month period ending February 28, 2006, and February 28, 2005 is summarized in the chart below.



Software Development and Licensing ("SDL"), which includes consulting activities, development of the Company's CARE II CRM initiatives and royalties from our co-ownership of CALMS, generated a contribution margin loss of $0.1 million for the Quarter as compared to a contribution margin loss of less than $0.1 million for the same period of the last fiscal year. The operating costs for the Quarter relate primarily to salary, selling and administrative costs associated with the development of the Company's CARE II CRM initiatives.

Home-Link's operating activities consist of a contribution margin loss of $0.1 million for the Quarter, unchanged from the same period of last year. As described earlier, substantially all of Home-Link's revenue for the Quarter was generated from related parties or supplier transaction fees derived from the related-party relationship. These related parties were contracted to utilize Home-Link's services to June 30, 2005 and have chosen not to renew their contract at this time, but continue to use these services on a limited basis. Home-Link management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition.

General and administrative operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from Centract for operations, accounting and investment management services (see "Transactions with Related Parties"). The $0.4 million of administrative costs for the Quarter includes a settlement of pre CCAA taxes. The remaining $0.2 million of administrative costs for the Quarter is in line with management's expectations and last year.

Investment income relates to income earned on the Company's short-term investments. The investment income of $0.3 million for the Quarter was unchanged over the same period of the prior year. Currently 68% of our investment portfolio is invested in the bonds of Real Estate Investment Trusts or companies with substantial real estate holdings.

Amortization for the Quarter decreased $0.5 million from the same period last year. The decrease is due primarily to a management revision of the estimated useful life of the CARE II CRM system from five years to seven years at the end of fiscal 2005. The full year impact of this revision was reflected in the current Quarter's amortization amount.

Income tax expense for the Quarter was $0.2 million as compared to a recovery of $3.2 million for the same period of fiscal 2005. In 2005 the Company recorded a $3.2 million income tax recovery and corresponding future tax asset ($2.7 million current, $0.5 million-long-term) which represented the benefit of losses expected to be utilized to offset future taxable income. During the 12 months ended February 28, 2006, the full $3.2 million was utilized to offset taxable income in fiscal 2006 and a further $3 million income tax recovery was recorded, resulting in a corresponding $0.2 million income tax expense. Management assesses on a quarterly basis the likelihood of recovering these tax losses and adjusts the valuation allowance recorded against the future tax asset accordingly. During the Quarter and the same period in 2005 the Company generated taxable income which was offset through the use of non capital loss carryforward balances not previously recognized.

Results of Operations: Fiscal 2006 compared to Fiscal 2005

($ thousands, except per share amounts)	**2006**	2005
Revenue	**10,467**	8,608
Operating costs	**2,530**	2,534
Contribution margin	**7,937**	6,074
Investment income	**1,119**	936
Gain on sale of investments	**244**	809
Amortization	**(1,661)**	(2,154)
Interest expense	**—**	(19)
Net income for the period before income tax	**7,639**	5,646
Income tax recovery/(expense)	**(200)**	3,200
Net income for the period	**7,439**	8,846
Basic and diluted earnings per common share		
Basic	**$ 0.80**	$ 1.83
Diluted	**$ 0.41**	$ 0.99

As summarized in the chart above, the Company reported net income of $7.4 million for the 12 months ended February 28, 2006 as compared to net income of $8.8 million for the 12 months ended February 28, 2005. After the payment of preferred share dividends, income available to common shareholders was $0.80 per share and $1.83 per share, for the 12 months ended February 28, 2006 and February 28, 2005, respectively and on a diluted basis $0.41 and $0.99 per share for the 12 months ended February 28, 2006 and February 28, 2005, respectively. The most significant elements contributing to the $1.4 million year-over-year decrease in net income was a $3.4 million decrease in income tax recovery, and a $0.6 million decrease in the gains realized on the sale of certain holdings within the Company's investment portfolio. Partially offsetting these amounts were a $1.8 million increase in contribution margin generated from the ICON operations due to increased file activities, a $0.2 million decrease in Home-Link's contribution margin loss resulting from the downsizing activities undertaken in late fiscal 2004, a $0.2 million increase in investment income, and a $0.4 million decrease in intangible amortization as a result of a management revision of the estimated useful life of the CARE II CRM system from five years to seven years at the end of fiscal 2005. A summary of the contribution margin by business line is summarized in the table below and a more detailed discussion of the year-over-year results follows.

($ thousands)	**2006**	2005
ICON licensing and consulting		
Revenue	**10,388**	8,353
Operating costs	**(991)**	(796)
	9,397	7,557
Software development and licensing		
Revenue	**—**	30
Operating costs	**(283)**	(233)
	(283)	(203)
Home-Link operations		
Revenue	**79**	225
Operating costs	**(472)**	(855)
	(393)	(630)
Other		
General and administration	**(784)**	(650)
	(784)	(650)
Contribution margin		
Revenue	**10,467**	8,608
Operating costs	**(2,530)**	(2,534)
	7,937	6,074

ICON licensing and consulting ("ICON") activities consist of $10.4 million in revenue generated from contracted relocation and asset recovery license agreements (see "ICON Transaction") with Centract. Of the $10.4 million in revenue, $9.6 million in licensing revenue (2005 – $7.9 million) and $0.6 million (2005 – $0.3 million) in consulting revenue were earned from Centract's Relocation business and $0.2 million from Centract's Asset Recovery business. The year-to-date underlying file activity for Centract's Relocation business is 36% ahead of prior year levels and slightly ahead of management's expectations as the ICON contract commenced April 13, 2004 resulting in 10.5 months of file activity in the 12 months ended February 28, 2005. Asset Recovery full year file activity is 29% ahead of last year and is slightly ahead of management expectations. ICON operating costs relate to staffing, selling, premises and administrative costs associated with nine development and support personnel and were in line with management's expectations.

Software Development and Licensing ("SDL") which includes consulting activities, development of the Company's CARE II CRM initiatives and royalties from our co-ownership of CALMS, generated a contribution margin loss of $0.3 million for the 12-month period ended February 28, 2006 versus a contribution margin loss of $0.2 million for the same period last year. The current year loss of $0.3 million relates primarily to salary, selling and administrative costs associated with the development of the Company's CARE II CRM initiatives.

Home-Link's operating activities consist of a contribution margin loss of $0.4 million for the 12 months ended February 28, 2006 as compared to a contribution margin loss of $0.6 million for the same period last year. The decrease in the overall loss of $0.2 million was due primarily to a decrease in overall operating expenses of $0.4 million offset by a decrease in revenue of $0.2 million. These cost savings were the result of the downsizing of Home-Link's operations due to a decline in current transaction volumes, which was precipitated by a decline in the number of third-party clients who chose not to utilize Home-Link's services. As described earlier, substantially all of Home-Link's revenue for the 12-month period was generated from related parties or supplier transaction fees derived from the related-party relationships. These related parties had contracted to utilize Home-Link's services to June 30, 2005 and have chosen not to renew their contract at this time, but continue to use these services on a limited basis. Home-Link's management continues to work with third-party clients and suppliers to enhance the Home-Link value proposition.

General and administrative operations are comprised of public operating costs related to shareholder communications, audit, regulatory filing fees, insurance costs, administrative expenditures and a management fee from Centract for, operations, accounting and investment management services (see "Transactions with Related Parties"). These costs are estimated at $550,000 to $650,000 per annum and are offset by income earned on cash balances. The $0.1 million increase in costs for the 12 months ended February 28, 2006 as compared to the same period last year, was as a result of a settlement of pre CCAA taxes.

Investment income relates to income earned on the Company's short-term investments. The investment income of $1.1 million for the 12 months ended February 28, 2006 was $0.2 million higher than the same period in 2005. The increase is due to a higher average investment yield on the investment portfolio and a $5.0 million increase in the average portfolio balance during the 12 months ended February 28, 2006 as compared to the 12 months ended February 28, 2005. The portfolio has increased as a result of the positive cash flow derived from our ICON acquisition.

Amortization for the 12 months ended February 28, 2006 of $1.7 million was decreased $0.5 million from the same period last year. The decrease is due primarily to a management revision of the estimated useful life of the CARE II CRM system from five years to seven years at the end of fiscal 2005.

Income tax expense for the 12 months ended February 28, 2006 was $0.2 million as compared to a recovery of $3.2 million for the same period of fiscal 2005 as described in this MD&A discussion of the results for the Quarter. During the 12 months ended February 28, 2006 and 2005, the Company generated taxable income of $2.7 million and $2 million, respectively, which was offset through the use of non capital loss carryforward balances not previously recognized. As at February 28, 2006 the Company had federal and provincial non-capital loss carry forwards of $38.8 million and $46.2 million, respectively, which are available to offset future taxable income.

Liquidity and Capital Resources

($ thousands)	**As at February 28, 2006**	As at February 28, 2005
Current assets		
Cash and cash equivalents	**7,634**	2,714
Short-term investments	**18,972**	16,986
	26,606	19,700
Accounts receivable	**1,079**	1,400
Prepaid and other assets	**113**	78
Future tax assets	**3,000**	2,660
	30,798	23,838
Current liabilities		
Accounts payable and accrued liabilities	**446**	448
Income taxes payable	**493**	485
Dividends payable	**2,916**	842
Deferred income	**—**	56
	3,855	1,831
	26,943	22,007

As at February 28, 2006 and as summarized in the chart above, the Company had positive working capital of $26.9 million, up $5.0 million from February 28, 2005 with $7.0 million arising from increased current asset balances partially offset by a $2.0 million increase in current liabilities. The following two items of note drive the net increase in working capital:

- $9.5 million increase in cash flow from operations which after dividend payments of $2.6 million were invested in cash, and cash equivalents and short-term investments, partially offset by;
- $2.1 million increase in dividends payable arising from the aggregate dividend on the additional Series C preferred shares to be issued subsequent to February 28, 2006 as a result of the earn-out calculation.

As at February 28, 2006, short-term investments were comprised of corporate bonds with an average yield to market ranging from 4% to 9%.

The Company has sufficient funds in the near term to meet its operating requirements and current annual cumulative dividend requirements as at May 17, 2006 of $3.1 million (see “Capital Structure”). The Company’s liquidity may be reduced by the redemption of its preferred shares and the payment of participation dividends (see “Capital Structure”).

Contractual Obligations

The following is a summary of the Company’s contractual obligations:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Premises lease	238,000	51,000	46,000	46,000	4,000

Capital Resources

The financial resources available to the Company include $7.6 million in cash and cash equivalents and $19 million in marketable securities. The Company currently has no debt financing arrangements in place.

We will assess financing alternatives such as the issuance of additional share capital or debt when funding requirements, such as potential acquisition opportunities present themselves.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the date of this MD&A.

Related Party Transactions

Share Ownership

The Company's most significant shareholder is Centract. As at February 28, 2006 Centract had the following shareholdings:

Share Class	Number of shares held	Percentage of shares held
Common	1,652,905	48%
Series A preferred shares	1,280,000	100%
Series B preferred shares	22,000,000	100%
Series C preferred shares	24,189	100%
Series D preferred shares	3,500,000	100%

Centract acquired its common shares and Series A preferred share holdings from the Company in the third quarter of fiscal 2003 as consideration for the sale of its 100% ownership of Home-Link Services Canada Ltd. Centract acquired 20,000,000 of its Series B preferred shares on September 13, 2002 for cash consideration of $20 million and the remaining 2,000,000 Series B preferred shares on July 12, 2004 upon the conversion of the $2,000,000 subordinated debenture it received as part of the consideration from the ICON Transaction. In addition, Centract acquired its 3,500,000 Series D preferred shares as part of the consideration from the ICON Transaction. During fiscal 2005, 24,189 Series C preferred shares were earned as part of the earn-out option as part of the consideration from the ICON Transaction (see "ICON Transaction"). The Series C preferred shares were issued in the second quarter of fiscal 2006. See Capital Structure for further information regarding the Company's share structure.

Transactions with Related Parties

Transactions with related parties are recorded at contracted rates or at exchange amounts approximating fair market value. A summary of these amounts for the three- and 12-month periods ended February 28, 2006 and February 28, 2005, respectively are as follows:

	Three months ended		**Twelve months ended**	
($ millions)	**February 28 2006**	February 28 2005	**February 28 2006**	February 28 2005
Revenue				
ICON	**1.7**	2.0	**10.4**	8.3
Home-Link service fees	**—**	—	**0.1**	0.2
IRP software and upgrade fees	**—**	—	**—**	—
Expenses				
Management fees	**0.1**	0.1	**0.4**	0.6
Premises rent	**—**	—	**0.1**	0.1
Dividends				
Series A preferred shares	**0.1**	—	**0.1**	0.1
Series B preferred shares	**0.9**	0.8	**2.4**	2.3
Series C preferred shares	**2.0**	—	**2.1**	—
Series D preferred shares	**—**	—	**0.1**	0.1

Management fees relate to services such as accounting, payroll, internal audit and other administrative activities related to the day-to-day activities of the Company as well as strategic planning and guidance provided by senior executives of Centract. Premises rent is for space occupied by Homeserve in buildings owned and managed by Centract.

ICON Transaction

On April 13, 2004, the Company's shareholders approved the ICON Transaction, which resulted in Centract selling its interest in the ICON software and entering into licensing, premises lease and employment arrangements with the Company for potential consideration of up to $24 million, $15.3 million of which has been earned to February 28, 2006, comprised of:

- A $2 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into Series B preferred shares on the basis of one Series B preferred share for each $1.00 of debenture principal converted. These debentures were converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- $3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5%. The Series D preferred shares are redeemable by the Company at any time subject to meeting certain conditions on the basis of $1.00 for each share redeemed. The shares at the holder's option, subject to adjustment, or automatically subject to meeting certain criteria, are convertible into non-voting common shares on the basis of one non-voting common share for each Series D preferred share converted. In accordance with the automatic conversion terms of these shares, these shares were converted subsequent to year-end into 3,500,000 non-voting common shares; plus
- An earn-out option, which provides for the issuance of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each $1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements described below, in excess of $8,000 for the period from April 13, 2004 to February 29, 2008 plus an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. In fiscal 2006, 24,189 Series C preferred shares were issued under the earn-out for fiscal 2005 and an additional $9.8 million shares are to be issued subsequent to year-end for the fiscal 2006 earn-out bringing the total number of shares issued under this option to 9,787,250; plus
- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22,000,000. As at February 28, 2006, there are 22,000,000 Series B preferred shares outstanding, as a result of the conversion of the Company's $2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004.

As at February 28, 2006, the Company has recorded $15.8 million with respect to our purchase of ICON, which was comprised of $15.3 million in intangible and capital assets summarized in the chart below and $0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction which were paid for with cash and the issuance of Series C preferred shares. The amount recorded for the purchase of ICON and subsequent amortization of this asset will increase in accordance with the earn-out provisions of the purchase and sale agreement as described earlier.

($ millions)

Assets acquired	
Intangible assets	15.2
Capital assets	0.1
	15.3
Consideration provided	
Subordinated debenture	2.0
Series C preferred shares[1]	9.8
Series D preferred shares	3.5
	15.3

1 To be issued subsequent to the fiscal 2006 year-end

The ICON licensing arrangements are comprised of the following two licenses:

1. A seven-year transferable and renewable license with Centract or its designee for the exclusive use of the ICON software in the North American relocation market for which Centract will pay the Company a license fee equal to: (i) $500 per file for the first 10,000 files opened in any calendar year, (ii) $400 per file opened for the next 10,000 files in any calendar year and (iii) $250 per file opened in excess of 20,000 files in any calendar year. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2011 with successive two-year renewal terms. On renewal, the license fee during such renewal period will be equal to the lower of $200 per file opened or the lowest fee charged by the Company to any licensee from whom the Company generates annual license fees in excess of $500,000. During

the 12 months ended February 28, 2006, the Company earned $9.6 million in related licensing fees on 22,553 files opened. As noted above the licensing fee per file opened is based on the number of files opened in a calendar year, not on the Company's fiscal year.

As part of the licensing agreement Centract is to receive at no additional cost, maintenance and technological support and normal course upgrades. Consulting Services provided for development upgrades or modifications are provided to Centract at cost plus 20%. During the 12 months ended February 28, 2006, the Company earned $0.6 million from these services.

2. A five-year, non-transferable license with Asset Recovery, a division of Centract, which currently uses ICON in exchange for a monthly license fee equal to $50 per administrative file and $100 per Home Sale file. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2009 with successive two-year renewal terms. During the 12 months ended February 28, 2006, the Company earned $0.2 million in related fees on 2,204 files opened.

The premises lease arrangement is comprised of the lease of 2,000 square feet at market rates for a period that is the earlier of the date of termination of the Centract license and upon 30 days prior written notice.

Employment arrangements consist of employment agreements with eight former employees of Centract who are required for the development and support of the ICON software. The employment agreements are substantially the same as the terms of employment provided by Centract.

Critical Accounting Estimates

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates could have a significant adverse effect on operating results and financial position. The following significant accounting estimates are considered critical in that they involve a higher degree of judgment and complexity than others.

Useful life of Intangible Assets and Property Plant and Equipment ("PP&E")

The estimated useful life of intangible assets and PP&E is used to determine amortization expense. An asset's useful life is estimated when the asset is acquired. The estimate is based upon past experience with similar assets, taking into account expected technological changes, prospective economic utilization and physical condition of the assets concerned. A reassessment of the economic lives is conducted when events or changes in circumstances indicate that their useful life may not be as long as originally anticipated. Adjustments to their expected lives would be made after considering historical experience, market demands and other factors.

Impairment

The impairment of long-lived assets, comprising the Company's PP&E and intangible assets are assessed when events or changes in circumstances indicate that the Company may not be able to recover their carrying values. Factors considered important which would result in an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of the Company's use of its assets or the strategy of the overall business; and
- significant negative industry or economic trends.

Impairment of such assets is determined using a projected undiscounted cash flow method. If the asset's carrying value is greater than the value indicated under the undiscounted cash flow method, an impairment charge would be recorded. This requires judgment to be made by management estimating future cash flows and economic life, among other assumptions. Different assumptions could yield materially different results.

Management believes that estimates of future cash flows and fair value that it has used in evaluating impairment of such assets are reasonable. The assumptions used in preparing these estimates are consistent with internal planning and reflect best estimates based on factors including past operating results, budgets, economic projections, and market trends. These estimates, however, have inherent uncertainties that management may not be able to control. As a result, the amounts reported for these items could be different if different assumptions were used or if conditions changed in the future. A change in the estimate would affect the net earnings of the Company, but would have no direct cash flow implications.

The Company has recorded intangible assets related to the purchase of Home-Link, the purchase of the license and sub-license for use of Home-Link's CRM software in Canada and the ICON Transaction. The original allocation to the intangible Home-Link assets and CRM software was $5.7 million. These intangible assets are being amortized over a seven-year period and had a net book value of $2.3 million as at February 28, 2006. The allocation to date (see "ICON Transaction") to the Company's intangible ICON assets was $15.8 million. These assets are being amortized over a seven-year period and had a net book value of $14.1 million as at February 28, 2006. The Company has PP&E with a net book value of less than $0.1 million as at February 28, 2006. Management has reviewed the value of these assets as of the date of this MD&A and determined that there is no impairment in the carrying value of these assets.

Accounting for income taxes

The Company is required to estimate the amount of tax payable for the current year and the future income tax assets and liabilities recorded in the accounts for future tax consequences of events that have been reflected in its financial statements. Significant management judgment is required to assess the timing and probability of the ultimate tax impact. The Company records valuation allowances on future tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, changes in the jurisdictions in which the Company operates, the inability to generate sufficient future taxable income or unpredicted results from potential examinations or determinations of each year's liability by taxing authorities.

Valuation allowances primarily relate to potential future tax assets arising from accounting depreciation claimed in excess of tax depreciation and tax losses carried forward. Management must assess both positive and negative evidence when determining whether it is more likely than not that future tax assets will be recoverable in future periods. Based on this assessment, a valuation allowance must be established where management has determined, based on current facts and reasonable assumptions, that such future tax assets will not likely be realized by the Company. Realization is based on the Company's ability to generate sufficient future taxable income. During the fourth quarter of 2005, the Company recognized a future tax asset related to tax losses carried forward. A change in material assumptions occurred in the Quarter in relation to the relative significance of positive and negative evidence related to the income from our ICON acquisition. Based on the track record of the relocation and asset recovery volumes underlying the ICON licensing fees, management determined that the valuation allowance should be reduced. This $3.2 million tax recovery was fully utilized in fiscal 2006. During the fourth quarter of 2006, the Company recorded an income tax recovery of $3.0 million which represents the benefit of the tax losses which the Company expects to utilize in fiscal 2007 based on management's current estimate of income that will more likely than not be generated by the Company to utilize these tax losses. The net impact on earnings is a tax expense of $0.2 million. The Company intends to maintain a valuation allowance for the balance of the future tax asset until sufficient positive evidence exists to support its reversal. Changes in material assumptions can occur from period to period due to the aging of prior year's losses, the cumulative effect of current period taxable income and other sources of positive and negative evidence. If these changes in material assumptions were to provide sufficient positive evidence, the Corporation could record the net benefit of $21.3 million, or a portion thereof, as a recovery of income taxes in the period when realization becomes more likely than not and a corresponding increase in net future income tax assets.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and dividends payable. Management estimates that the fair values of these financial instruments approximate the carrying value. The Company has interest rate risk due to the term of the bonds that are held in its investment portfolio. The Company mitigates the interest rate risk by investing in high quality securities and limiting the amount of investment in any single security to 20% of the total investment portfolio.

Adoption of Accounting Policies

The April 13, 2004 acquisition of the ICON system and the entering into related agreements gave rise to the adoption of following accounting:

Revenue recognition – ICON software and development

The Company recognizes ICON licensing revenue on a per transaction basis at the time a new file is opened on the ICON system. A new file represents a new relocation transferee or new asset recovery file opened by a client of the Company. Recognition of revenue by the Company is not affected by the agreement between the relocation company, which has a license to use ICON, and the client for which the relocation service is being performed.

The Company recognizes ICON consulting revenue over the term of the software development contracts based on an appropriate measure of the percentage of the contract that has been completed.

Disclosure Controls and Procedures

The Company maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. The Chief Executive Officer and the Chief Financial Officer of the Company evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at February 28, 2006 and have concluded that such disclosure controls and procedures are operating effectively.

Outstanding Shares

As at February 28, 2006, the number of issued and outstanding shares of the Company are as follows:

Description	As at February 28, 2006
Common shares	3,443,687
Series A preferred shares	1,280,000
Series B preferred shares	22,000,000
Series C preferred shares	24,189
Series D preferred shares	3,500,000
Non-voting common shares	—

The Series A and Series B preferred shares are redeemable by the Company at any time after December 31, 2004 upon the payment of the sum of $1.00 for each share to be redeemed.

The Company may issue up to 18,500,000 Series C preferred shares at $1.00 per share. The issuance of these shares is subject to meeting certain earn-out criteria related to the Company's ICON Transaction (see "ICON Transaction"). During fiscal 2005, 24,189 Series C preferred shares were earned as part of the earn-out option as part of the consideration from the ICON Transaction (see "ICON Transaction"). The Series C preferred shares were issued in the second quarter of fiscal 2006.

The Series D preferred shares are redeemable by the Company at any time subject to meeting certain conditions, on the basis of $1.00 for each share redeemed. The Series D preferred shares were issued on April 13, 2004. The Series D preferred shares are, at the holder's option, subject to adjustment, or automatically upon meeting certain criteria, convertible into non-voting common shares of the Company on the basis of one Series D preferred share for one non-voting common share.

In addition to the above noted classes of shares, the Company issued a $2 million Debenture in connection with the ICON Transaction (see "ICON Transaction"). The Debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into Series B preferred shares on the basis of one Series B preferred share for each $1.00 of Debenture principal outstanding, subject to adjustment. On July 12, 2004 Centract converted its debenture holdings into 2,000,000 Series B preferred shares.

The Company has entered into an agreement with the holders of the Series C preferred shares and Series D preferred shares to use its reasonable commercial efforts to seek a listing for the Series C preferred shares and the non-voting common shares issuable upon conversion of the Series D preferred shares, on a recognized Canadian stock exchange, upon written request by the holders of such shares at any time after five years from the date of their respective issuance by the Company.

As a result of our restructuring efforts and proceedings under CCAA in fiscal 2003, all pre-existing stock options have either terminated or otherwise expired. The Company has not issued any stock options in fiscal 2004, 2005 or 2006 and as such the Company has no stock options outstanding as at the date of this MD&A.

Capital Structure

The Company's capital structure as at February 28, 2006 is comprised of common shares, non-voting common shares and preferred shares. The Company's Series A preferred shares, Series B preferred shares, Series C preferred shares, issuable in connection with the ICON Transaction, and Series D preferred shares can be redeemed by the Company for $1.00 per share. Redemption of the preferred shares could significantly reduce the Company's cash and cash equivalents and short-term investments.

Given the number of preferred shares of the Company that are issuable or outstanding, the related dividends and the potential redemption of such preferred shares, there is a possibility that holders of the Company's common shares will not realize any appreciable return on their common shares in the short to medium term.

A summary of the components of the Company's diluted earnings per share is as follows:

($ thousands except number of shares and per share amounts)	Three months ended February 28 2006	Three months ended February 28 2005	Twelve months ended February 28 2006	Twelve months ended February 28 2005
Net income	**$ 933**	$ 4,265	**$ 7,439**	$ 8,846
Preferred share dividends	**(3,014)**	(942)	**(4,688)**	(2,527)
Net income (loss) available to common shareholders	**$ (2,081)**	$ 3,323	**$ 2,751**	$ 6,319
Weighted average outstanding common shares	**3,444**	3,444	**3,444**	3,444
Dilutive effect of the conversion of preferred shares	**3,500**	3,500	**3,500**	3,068
Common shares and common share equivalents	**6,944**	6,944	**6,944**	6,512
Adjustment to net income available to common shareholders	**30**	30	**123**	107
Diluted earnings (loss) per common share	**$ (0.30)**	$ 0.48	**$ 0.41**	$ 0.99

Income available to common shareholders has been reduced by a payment of an Annual Participation Dividend ("APD") and an Aggregate Dividend on the Series C preferred shares to be issued subsequent to the fiscal 2006 year-end as a result of the earn-out calculation discussed under ICON Transaction, subject to the approval of the Board of Directors. The "APD" is a payment of up to 20.89% of pre-defined consolidated pre-tax income of the Company as summarized in the chart below and discussed under ICON Transaction. The APD for the 12 months ended February 28, 2006 was $417 and $396 for the 12 months ended February 28, 2005. The Aggregate Dividend on the Series C preferred shares issued subsequent to the 2006 year-end as a result of the earn-out calculation discussed under ICON Transaction is an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. The Aggregate Dividend for the 12 months ended February 28, 2006 was $2,048 and $2 for the 12 months ended February 28, 2005.

A summary of the Company's capital structure as at February 28, 2006 with pro-forma adjustments for the conversion of the Series D preferred shares to non-voting common shares and the issuance of 9,763,061 Series C preferred shares in respect of the fiscal 2006 ICON earn-out is summarized in the chart below.

Share Class	**Number of Shares Issued and Outstanding**	**Carrying Value of Share Class** ($ thousands)	%	**Annualized Dividends** ($ thousands)	**Annual Participation Dividend**	**Percentage of Shares Held by Centract**
Common [1]	3,443,687	3,012	—	—	—	48%
Non-voting common[2,7]	3,500,000	3,500	—	—	—	100%
Series A preferred shares [3,4]	1,280,000	1,280	9.00	115	0.64%	100%
Series B preferred shares[3,4]	22,000,000	22,000	9.00	1,980	11.00%	100%
Series C preferred shares[4,5,7]	9,787,250	9,787	10.00	979	9.25%	100%
Series D preferred shares[2,6,7]	—	—	—	—	—	—
		39,579		3,074		

1. On September 5, 2003 at the Company's annual general meeting the shareholders approved the consolidation of the Company's common shares on the basis of 25 for one.
2. Series D preferred shares are convertible into 3,500,000 non-voting common shares on the basis of one non-voting common share, for each Series D preferred share. Series D preferred shares are also redeemable by the Company upon meeting certain conditions, on the basis of $1.00 for each share redeemed. In accordance with the automatic conversion terms of these shares, these shares are to be converted subsequent to year-end into 3,500,000 non-voting common shares.
3. Non-convertible, non-voting and redeemable by the Company for $1.00 per share after December 31, 2004.
4. Quarterly cumulative dividend.
5. Up to 18,500,000 Series C preferred shares may be issued under an earn-out calculation (see "ICON Transaction") at $1.00 per share. 24,189 Series C preferred shares were issued in the second quarter to fulfill the earn-out option, for fiscal 2005, as part of the consideration from the ICON Transaction, and an additional 9,763,061 earned to date were issued on May 17, 2006.
6. Annual non-cumulative dividend.
7. At holder's request the Company will use reasonable efforts to list such shares on a recognized exchange at any time after five years from their date of issuance.

Outlook

The Company will consider seeking a re-listing of the Company's common shares when there is reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Company and, in particular, the servicing of the obligations related to the Company's preferred shares, including their potential redemption.

ICON

The acquisition of ICON and subsequent awarding of the Government of Canada Relocation contract to Centract, is a significant development for our operations. The acquisition is expected to provide significant licensing fee cash flows to the Company and licensing opportunities for markets outside of North America. In addition, the eight development and support personnel who were hired as part of the ICON transaction, will also provide the basis for consulting fees earned on software development and upgrade activities. The Company is in the early stages of developing the licensing and consulting opportunities for ICON. Subsequent to the award of the contracts, complaints were filed with the Canadian International Trade Tribunal (“CITT”) with respect to the award of this contract and the matter was ultimately forwarded to the Federal Court of Appeal for a ruling. On January 11, 2006, the Federal Court of Appeal ruled on the matter with the effect to Homeserve being the contracts as awarded to Centract stands. Subsequent to the Federal Court decision the Office of the Auditor General began an audit of the process for awarding the Relocation Services Government Relocation contract. The audit is being conducted at the request of the Standing Committee on Public Accounts. The results of the audit are expected to be tabled in Parliament in November 2006.

Software Development and Licensing

We are in discussions with a number of financial institutions and retail companies to commence pilot operations that will demonstrate our CARE II CRM capabilities and assist them to better manage their respective mortgage portfolios and customer base. Based on prior experience, we anticipate that the timeframe from pilot to contracted volumes could take from three to 12 months, if not longer.

We are currently assessing opportunities for our co-ownership of CALMS software and how we can further develop this product offering.

Home-Link

Home-Link earns transaction-based revenue through the use of our CARE II CRM software and call center operations to facilitate the provision of services to consumers during the home purchasing and selling cycle. Home-Link has never been profitable and has incurred significant losses since it started business in mid-2000. Home-Link continues to develop its service offerings and is expected to benefit from transaction volumes that would arise from the servicing of new CARE II CRM opportunities described above. While management believes that Home-Link will ultimately develop into a successful business, it is expected that Home-Link will continue to incur losses for the foreseeable future.

Investment Operations

The Company intends to invest its excess available cash in instruments that have the potential to generate a current yield that would offset, or partially offset, the dividend rate on the Company’s preferred shares. The Company’s existing investment portfolio of $19 million as at February 28, 2006 has a yield to maturity ranging from 4% to 9%. Management will continue to evaluate higher yield investment opportunities, which meets its risk and liquidity tolerances. To mitigate risk, no more than 20% of our portfolio is invested in any one single company.

Re-listing of the Company’s Common Shares

As discussed earlier, the ICON Transaction resulted in the issue of preferred shares and an obligation to issue additional preferred shares in certain circumstances. The Company will consider seeking a re-listing of the Company’s common shares when there is a reasonable probability of returning value to common shareholders after having considered the overall capitalization of the Company and in particular the servicing of the obligations related to the Company’s preferred shares, including their potential redemption.

Forward-looking Statements

This annual report contains forward-looking statements that involve risks and uncertainties, which may cause actual results to differ materially from the statements made. When used in this annual report, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, and “would” and similar expressions are intended to identify forward-looking statements. Such statements reflect Homeserve’s current views with respect to current events and are subject to such risks and uncertainties. Many factors could cause our actual results to differ materially from the statements made including those factors detailed from time to time in filings made by Homeserve with Canadian securities regulatory underlying authorities. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated or expected. Homeserve does not intend and does not assume any obligation to update these forward-looking statements.

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Balance Sheet

($ thousands, unaudited)	**As at May 31, 2004**	**As at Aug. 31, 2004**	**As at Nov. 30, 2004**	**As at Feb. 28, 2005**	**As at May 31, 2005**	**As at Aug. 31, 2005**	**As at Nov. 30, 2005**	**As at Feb. 28, 2006**
ASSETS								
Current								
Cash and cash equivalents	1,183	4,237	2,154	2,714	5,932	7,216	6,675	7,634
Short-term investments	14,681	14,002	16,993	16,986	17,907	17,905	19,494	18,972
	15,864	18,239	19,147	19,700	23,839	25,121	26,169	26,606
Accounts receivable, prepaids and other assets	1,839	1,207	1,002	1,478	1,623	1,147	1,029	1,192
Future tax asset	—	—	—	2,660	2,660	2,660	2,660	3,000
Total current assets	17,703	19,446	20,149	23,838	28,122	28,928	29,858	30,798
Future tax asset	—	—	—	540	540	540	540	—
Capital assets, net	300	252	199	124	89	59	43	49
Intangible assets, net	9,673	9,198	8,707	8,233	7,736	7,236	6,737	16,426
	27,676	28,896	29,055	32,735	36,487	36,763	37,178	47,273
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current								
Accounts payable, accrued liabilities and other payables	433	438	467	448	620	421	472	446
Income and other taxes payable	485	485	485	485	485	515	538	493
Dividends payable	335	396	426	842	767	408	432	2,916
Deferred revenue	42	155	120	56	15	—	—	—
Total current liabilities	1,295	1,474	1,498	1,831	1,887	1,344	1,442	3,855
Subordinated debentures	2,000	—	—	—	—	—	—	—
	3,295	1,474	1,498	1,831	1,887	1,344	1,442	3,855
Shareholders' equity								
Capital stock and contributed surplus	27,792	29,792	29,792	29,792	29,792	29,816	29,816	29,816
Shares to be issued	—	—	—	24	24	—	—	9,763
Retained earnings (deficit)	(3,411)	(2,370)	(2,235)	1,088	4,784	5,603	5,920	3,839
Total shareholders' equity	24,381	27,422	27,557	30,904	34,600	35,419	35,736	43,418
	27,676	28,896	29,055	32,735	36,487	36,763	37,178	47,273

Supplementary Information
Homeserve Technologies Inc.
Consolidated Statement of Retained Earnings (Deficit)

($ thousands, unaudited)	**As at May 31, 2004**	**As at Aug. 31, 2004**	**As at Nov. 30, 2004**	**As at Feb. 28, 2005**	**As at May 31, 2005**	**As at Aug. 31, 2005**	**As at Nov. 30, 2005**	**As at Feb. 28, 2006**
Net income for the three-month period	2,317	1,577	687	4,265	4,255	1,382	869	933
Preferred share dividends	(497)	(536)	(552)	(942)	(559)	(563)	(552)	(3,014)
Change in period	1,820	1,041	135	3,323	3,696	819	317	(2,081)
Retained earnings (deficit), beginning of the period	(5,231)	(3,411)	(2,370)	(2,235)	1,088	4,784	5,603	5,920
Retained earnings (deficit), end of period	(3,411)	(2,370)	(2,235)	1,088	4,784	5,603	5,920	3,839

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Statements of Net Income

($ thousands, except per share amounts, unaudited)	**Three months ended May 31, 2004** (reported)	**Six months ended Aug. 31, 2004** (reported)	**Nine months ended Nov. 30, 2004** (reported)	**Twelve months ended Feb. 28, 2005** (reported)	**Three months ended May 31, 2005** (reported)	**Six months ended Aug. 31, 2005** (reported)	**Nine months ended Nov. 30, 2005** (reported)	**Twelve months ended Feb. 28, 2006** (reported)
Sales	2,461	5,001	6,562	8,608	5,089	7,321	8,742	10,467
Cost of sales	—	—	—	—	—	—	—	—
Gross profit	2,461	5,001	6,562	8,608	5,089	7,321	8,742	10,467
Operating costs								
Selling, general and administration	503	1,257	1,859	2,534	527	1,088	1,651	2,530
	503	1,257	1,859	2,534	527	1,088	1,651	2,530
Income from operations before undernoted	1,958	3,744	4,703	6,074	4,562	6,233	7,091	7,937
Investment income	181	394	671	936	267	508	782	1,119
Gain (loss) on sale of investments	663	809	809	809	(41)	(41)	211	244
Interest expense	(10)	(19)	(19)	(19)	—	—	—	—
Amortization of property, plant and equipment and intangible assets	(475)	(1,034)	(1,583)	(2,154)	(533)	(1,063)	(1,580)	(1,661)
Net income for the period before income taxes	2,317	3,894	4,581	5,646	4,255	5,637	6,504	7,639
Income tax recovery (expense)	—	—	—	3,200	—	—	—	(200)
Net income for the period	2,317	3,894	4,581	8,846	4,255	5,637	6,504	7,439
Basic income per common share	0.53	0.83	0.87	1.83	1.07	1.31	1.40	0.80
Diluted income per common share	0.35	0.48	0.48	0.99	0.54	0.66	0.71	0.41
File Activity:								
Relocations	4,782	9,400	12,719	16,559	10,309	15,423	19,074	22,553
Asset Recovery	304	948	1,663	2,241	741	1,482	2,132	2,885

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Statements of Net Income

($ thousands, except per share amounts, unaudited)	**Three months ended May 31, 2004** (reported)	**Three months ended Aug. 31, 2004** (reported)	**Three months ended Nov. 30, 2004** (reported)	**Three months ended Feb. 28, 2005** (reported)	**Three months ended May 31, 2005** (reported)	**Three months ended Aug. 31, 2005** (reported)	**Three months ended Nov. 30, 2005** (reported)	**Three months ended Feb. 28, 2006** (reported)
Sales	2,461	2,540	1,561	2,046	5,089	2,232	1,420	1,726
Cost of sales	—	—	—	—	—	—	—	—
Gross profit	2,461	2,540	1,561	2,046	5,089	2,232	1,420	1,726
Operating costs								
Selling, general and administration	503	754	602	676	527	561	562	880
	503	754	602	676	527	561	562	880
Income from operations before undernoted	1,958	1,786	959	1,370	4,562	1,671	858	846
Investment income	181	213	277	266	267	241	274	337
Gain (loss) on sale of investments	663	146	—	—	(41)	—	253	32
Interest expense	(10)	(9)	—	—	—	—	—	—
Amortization of property, plant and equipment and intangible assets	(475)	(559)	(549)	(571)	(533)	(530)	(516)	(82)
Net income for the period before income taxes	2,317	1,577	687	1,065	4,255	1,382	869	1,133
Income tax recovery (expense)	—	—	—	3,200	—	—	—	(200)
Net income for the period	2,317	1,577	687	4,265	4,255	1,382	869	933
Basic income (loss) per common share	0.53	0.30	0.04	0.96	1.07	0.24	0.09	(0.60)
Diluted income (loss) per common share	0.35	0.15	0.02	0.48	0.54	0.12	0.05	(0.30)
File Activity:								
Relocations	4,782	4,618	3,319	3,840	10,309	5,114	3,651	3,479
Asset Recovery	304	644	715	578	741	741	650	753

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Statement of Cash Flows

($ thousands, unaudited)	**Three months ended May 31, 2004** (reported)	**Three months ended Aug. 31, 2004** (reported)	**Three months ended Nov. 30, 2004** (reported)	**Three months ended Feb. 28, 2005** (reported)	**Three months ended May 31, 2005** (reported)	**Three months ended Aug. 31, 2005** (reported)	**Three months ended Nov. 30, 2005** (reported)	**Three months ended Feb. 28, 2006** (reported)
OPERATING ACTIVITIES								
Net income for the period	2,317	1,577	687	4,265	4,255	1,382	869	933
Add (deduct) items not affecting cash	(164)	426	560	(2,625)	579	532	265	253
Net change in non-cash working capital balances	(1,310)	1,247	199	(904)	(15)	254	192	(195)
Cash provided by operating activities	843	3,250	1,446	736	4,819	2,168	1,326	991
FINANCING ACTIVITIES								
Payment of preferred dividends	(477)	(476)	(522)	(525)	(634)	(922)	(529)	(529)
Cash used in financing activities	(477)	(476)	(522)	(525)	(634)	(922)	(529)	(529)
INVESTING ACTIVITIES								
Sale (purchase) of short-term investments	330	812	(3,000)	1	(1,000)	—	(1,339)	585
Other	11	(532)	(7)	348	33	38	1	(88)
Cash provided by (used in) investing activities	341	280	(3,007)	349	(967)	38	(1,338)	497
Net (increase) decrease in cash and cash equivalents during the period	707	3,054	(2,083)	560	3,218	1,284	(541)	959
Cash and cash equivalents, beginning of period	476	1,183	4,237	2,154	2,714	5,932	7,216	6,675
Cash and cash equivalents, end of period	1,183	4,237	2,154	2,714	5,932	7,216	6,675	7,634

Supplementary Information
Homeserve Technologies Inc.
Condensed Consolidated Segmented Information
Contribution Margin

($ thousands, unaudited)	**Three months ended May 31, 2004** (reported)	**Three months ended Aug. 31, 2004** (reported)	**Three months ended Nov. 30, 2004** (reported)	**Three months ended Feb. 28, 2005** (reported)	**Three months ended May 31, 2005** (reported)	**Three months ended Aug. 31, 2005** (reported)	**Three months ended Nov. 30, 2005** (reported)	**Three months ended Feb. 28, 2006** (reported)
Segmented information								
ICON development and licensing								
Revenue	2,402	2,469	1,509	1,973	5,040	2,211	1,415	1,722
Cost of sales	—	—	—	—	—	—	—	—
Operating costs	(74)	(260)	(205)	(257)	(219)	(222)	(277)	(273)
	2,328	2,209	1,304	1,716	4,821	1,989	1,138	1,449
Software development and licensing								
Revenue	—	9	—	22				
Operating costs	(69)	(74)	(39)	(51)	(53)	(52)	(72)	(106)
	(69)	(65)	(39)	(30)	(53)	(52)	(72)	(106)
Home-Link operations								
Revenue	59	62	52	51	49	21	5	4
Cost of sales	—	—	—	—	—	—	—	—
Operating costs	(232)	(236)	(210)	(177)	(142)	(128)	(99)	(103)
	(173)	(174)	(158)	(126)	(93)	(107)	(94)	(99)
Other								
General and administration	(128)	(184)	(148)	(190)	(113)	(159)	(114)	(398)
Severance and other	—	—	—	—	—	—	—	—
	(128)	(184)	(148)	(190)	(113)	(159)	(114)	(398)
Contribution margin								
Revenue	2,461	2,540	1,561	2,045	5,089	2,232	1,420	1,726
Cost of sales	—	—	—	—	—	—	—	—
Operating costs	(503)	(754)	(602)	(675)	(527)	(561)	(562)	(880)
	1,958	1,786	959	1,370	4,562	1,671	858	846

Financial Statements

Homeserve Technologies Inc.

February 28, 2006

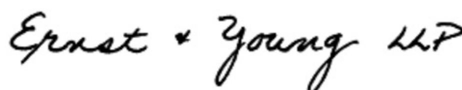
AUDITORS' REPORT

To the Shareholders of
Homeserve Technologies Inc.

We have audited the balance sheet of **Homeserve Technologies Inc.** [the "Company"] as at February 28, 2006 and the statements of income and retained earnings and cash flows for the year then ended. We have also audited the consolidated balance sheets of the Company as at February 28, 2005 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Toronto, Canada,
May 17, 2006.

Chartered Accountants

HOMESERVE TECHNOLOGIES INC.

BALANCE SHEETS

($ thousands)	**As at February 28, 2006**	As at February 28, 2005 *[note 1]*
ASSETS		
Current		
Cash and cash equivalents	**7,634**	2,714
Short-term investments *[note 4]*	**18,972**	16,986
Accounts receivable *[note 11]*	**1,079**	1,400
Prepaid expenses and other assets	**113**	78
Future tax assets *[note 8]*	**3,000**	2,660
Total current assets	**30,798**	23,838
Future tax assets *[note 8]*	**—**	540
Property, plant and equipment, net *[note 5]*	**49**	124
Intangible assets, net *[note 6]*	**16,426**	8,233
	47,273	32,735
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *[note 11]*	**446**	448
Income and other taxes payable	**493**	485
Dividends payable *[note 11]*	**2,916**	842
Deferred revenue *[note 11]*	**—**	56
Total current liabilities	**3,855**	1,831
Commitments and contingencies [notes 9 and 14]		
Shareholders' equity		
Capital stock *[note 7]*	**29,816**	29,792
Shares to be issued *[notes 3 and 7]*	**9,763**	24
Retained earnings	**3,839**	1,088
Total shareholders' equity	**43,418**	30,904
	47,273	32,735

See accompanying notes

On behalf of the Board:

Director　　　　Director

HOMESERVE TECHNOLOGIES INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

($ thousands, except per common share amounts)	**Year ended February 28 2006**	Year ended February 28 2005
		[note 1]
Sales *[notes 11 and 12]*	**10,467**	8,608
Operating expenses		
Selling, general and administrative *[note 11]*	**2,530**	2,534
Amortization of property, plant and equipment *[note 5]*	**91**	235
Amortization of intangible assets *[note 6]*	**1,570**	1,919
Income from operations before the undernoted	**6,276**	3,920
Investment income	**1,119**	936
Gain on sale of short-term investments	**244**	809
Interest expense	**—**	(19)
Income from operations before income taxes	**7,639**	5,646
Provision for (recovery of) income taxes *[note 8]*	**200**	(3,200)
Net income for the year	**7,439**	8,846
Preferred share dividends *[notes 7 and 11]*	**(4,688)**	(2,527)
Basic earnings available to common shareholders	**2,751**	6,319
Retained earnings (deficit), beginning of year	**1,088**	(5,231)
Retained earnings, end of year	**3,839**	1,088
Basic earnings available to common shareholders *[note 7]*	**2,751**	6,319
Basic earnings per common share *[note 7]*	**$0.80**	$1.83
Diluted earnings available to common shareholders *[note 7]*	**2,874**	6,426
Diluted earnings per common share *[note 7]*	**$0.41**	$0.99

See accompanying notes

HOMESERVE TECHNOLOGIES INC.

STATEMENTS OF CASH FLOWS

($ thousands)	**Year ended February 28 2006**	Year ended February 28 2005
		[note 1]
OPERATING ACTIVITIES		
Net income for the year	**7,439**	8,846
Add (deduct) items not affecting cash		
Amortization of bond premium	**12**	52
Amortization of property, plant and equipment	**91**	235
Amortization of intangible assets	**1,570**	1,919
Future income taxes (recovery)	**200**	(3,200)
Gain on sale of short-term investments	**(244)**	(809)
	9,068	7,043
Net change in non-cash working capital balances related to operations *[note 13]*	**236**	(792)
Cash provided by operating activities	**9,304**	6,251
FINANCING ACTIVITIES		
Payment of preferred share dividends	**(2,614)**	(2,000)
Cash used in financing activities	**(2,614)**	(2,000)
INVESTING ACTIVITIES		
Net increase in short-term investments	**(1,754)**	(1,857)
Acquisition of property, plant and equipment	**(18)**	(13)
Proceeds on disposal of property, plant and equipment	**2**	15
Acquisition of intangible assets	**—**	(158)
Cash used in investing activities	**(1,770)**	(2,013)
Net increase in cash and cash equivalents during the year	**4,920**	2,238
Cash and cash equivalents, beginning of year	**2,714**	476
Cash and cash equivalents, end of year	**7,634**	2,714
Supplemental cash flow information		
Interest income received	**1,119**	936
Interest expense paid	**—**	19
Supplemental disclosure of non-cash investing and financing activities		
Increase in intangible assets and shares to be issued	**9,763**	24
Preferred shares issued in connection with acquisition of ICON	**24**	5,500

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles [“GAAP”].

Homeserve Technologies Inc. [“Homeserve” or the “Company”] is a technology company focused on the development and application of proprietary software solutions comprised of transaction fee-based services, licensing fee-based software solutions and consulting fee-based software development and support activities. On March 1, 2005, Homeserve and its wholly-owned subsidiary Home-Link Services Canada Ltd. [“Home-Link”] were amalgamated and continued as Homeserve Technologies Inc. Homeserve’s largest shareholder and customer, which owns 48% of the common shares and all of the preferred shares of the Company, is Brookfield Asset Management Inc. [formerly known as Brascan Corporation] operating through certain subsidiaries as Centract Residential Property Services [“Centract”], its residential real estate services division.

As at February 28, 2006, the Company had four reportable segments, ICON, Home-Link, Software Development and Licensing and General and Administration. ICON is a customizable software application that manages all aspects of a residential home relocation service. The Company earns licensing fees by providing a license to use this software to companies in the business of managing residential relocations. Home-Link revenues are generated from service fees, transaction fees, and marketing fees. Software Development and Licensing revenues are generated from software licensing and royalty fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian GAAP. The significant accounting policies are summarized as follows:

Comparative financial statements

The comparative financial statements represent the consolidated financial statements of the Company and its then wholly-owned subsidiary, Home-Link. On consolidation, all inter-company transactions and balances have been eliminated. As noted above, on March 1, 2005, the Company and Home-Link were amalgamated and continued as Homeserve Technologies Inc.

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by management include reserves for uncollectible accounts, write-down of property, plant and equipment, impairment of intangible assets, recorded values of accrued liabilities and future tax assets. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash balances and highly liquid investments that are readily convertible to cash with maturities of 90 days or less at the date of purchase.

Short-term investments

Short-term investments consist of bonds and are carried at the lower of amortized cost or market. Amortized cost provides for amortization of discount or premium on a yield to maturity basis.

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

Computer equipment and software	3 years
Furniture and office equipment	5 years
Telephone equipment	5 years
Leasehold improvements	over term of the lease

Management reviews the carrying value of property, plant and equipment on a periodic basis to determine if an impairment in value has occurred. The Company measures any potential impairment by comparing the carrying value to the undiscounted amounts of expected future cash flows. Any impairment in the carrying value of property, plant and equipment is charged to the statements of income and retained earnings in the period such impairment is determined.

Intangible assets subject to amortization

Intangible assets subject to amortization are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

ICON system	over the initial term of the ICON license, expiring in 2011
Licensing fees and other costs	5 years
CRM system	7 years

The Company reviews intangible assets subject to amortization whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When indicators of impairment of the carrying value of the assets exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value.

Revenue recognition

ICON software and development

The Company recognizes ICON licensing revenue on a per transaction basis at the time a new file is opened on the ICON system. A new file represents a new relocation transferee or new asset recovery file opened by a client of the Company. Recognition of revenue by the Company is not affected by the agreement between the relocation company, which has a license to use ICON, and the client for which the relocation service is being performed.

The Company recognizes ICON consulting revenue over the term of the software development contracts based on an appropriate measure of the percentage of the contract that has been completed.

Home-Link

<u>Service fees</u>

Upon signing of a contract with the Company, the broker is obligated to pay a service fee. In most circumstances, the service fee is based on the number of residential real estate home sale transactions for the immediately prior fiscal year or 12-month period of the broker. In these cases, the service fees are recognized on a straight-line basis over the term of the contract. In other cases, the fee is based on the number of customers the broker enters into the Company's system. In these cases, the revenue is recognized over the term of the contract which approximates the service delivery period.

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

Transaction fees

Transaction fees of a fixed amount or as a percentage of gross revenue are charged to suppliers who provide services to customers through the Company's service offering. The Company recognizes its share of these fees upon completion of the service to the customer.

Marketing fees

The Company earns fees annually from suppliers for the provision of access to the Company's service. This revenue is recognized on a straight-line basis over the term of the contract.

Software Development and Licensing

The Company recognizes revenue over the term of the software development contract based on an appropriate measure of the percentage of the contract which has been completed. Royalty and licensing fees are recognized as earned, based on notification from the licensee that the sale has occurred.

Income taxes

Homeserve follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the period in which the future tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that the future tax assets will not be realized.

Earnings per share

Earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the dilution that would occur if Series D preferred shares were converted to non-voting common shares and the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method.

3. ACQUISITIONS

Acquisition of ICON

On April 13, 2004, the Company acquired Centract's interest in its ICON software and entered into licensing, premises lease and employment arrangements with Centract for potential consideration of $24 million, $15.3 million of which has been earned to February 28, 2006, comprised of:

- A $2.0 million debenture bearing interest at prime, payable quarterly in arrears, maturing in five years. The debenture is repayable by the Company at any time and is convertible at any time at the option of the holder into one Series B preferred share for each $1.00 of debenture principal outstanding. The debenture was converted to 2,000,000 Series B preferred shares on July 12, 2004; plus
- $3.5 million paid by the issuance of 3,500,000 Series D preferred shares with a non-cumulative annual dividend of 3.5% and conversion option to non-voting common shares of the Company [see *note 7* – Capital stock]. In accordance with the automatic conversion terms of these shares, these shares will be converted subsequent to the fiscal 2006 year-end into 3,500,000 non-voting common shares; plus
- An earn-out option which provides for issuances of up to 18,500,000 Series C preferred shares issuable on the basis of one Series C preferred share for each $1.00 of cumulative licensing fee revenue earned by the Company from its two license arrangements, in excess of $8,000 for the period from April 13, 2004 to February 29, 2008 plus an amount in cash equal to the aggregate dividends that would have been received by Centract if Centract had received the Series C preferred shares on April 13, 2004. The Series C preferred shares are also entitled to a cumulative quarterly dividend of 2.5% and a cumulative

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company [see *note 7* – Capital stock]. In fiscal 2006, 24,189 Series C preferred shares were issued under the earn-out for fiscal 2005 and an additional 9,763,061 Series C preferred shares are to be issued under the earn-out for fiscal 2006 subsequent to the year-end, which will bring the total number of Series C preferred shares issued under this option to 9,787,250; plus

- An increase in the Series B preferred share cumulative aggregate preferential annual participation dividend from 10% to 11% of pre-defined consolidated pre-tax income of the Company based on the weighted average number of Series B preferred shares outstanding divided by 22,000,000. The weighted average number of Series B preferred shares outstanding during the year ended February 28, 2006 was 22,000,000. As at February 28, 2006, there are 22,000,000 [2005 – 22,000,000] Series B preferred shares outstanding as a result of the conversion of the Company's $2.0 million debenture to 2,000,000 Series B preferred shares on July 12, 2004.

The initial ICON purchase price consideration was $6.0 million and was comprised of $5.5 million of intangible assets and property, plant and equipment and $0.5 million in legal, valuation, accounting and shareholder communication costs associated with the transaction. An additional $9.8 million of intangible assets was added during fiscal 2006 as a result of the earn-out option, bringing the total ICON intangible assets and property, plant and equipment related consideration to $15.3 million as summarized in the table below.

	($)
Assets acquired	
Intangible assets	15,233
Property, plant and equipment	54
	15,287
Consideration provided	
Convertible debenture	2,000
Series C preferred shares[1]	9,787
Series D preferred shares	3,500
	15,287

[1] 9,763,061 Series C preferred shares to be issued subsequent to the fiscal 2006 year-end included in shareholders' equity as "shares to be issued" [see *note 7*].

The ICON licensing arrangements are comprised of the following two licenses [fee per file not in thousands]:

1. A seven-year transferable and renewable license with Centract or its designee for the exclusive use of the ICON software in the North American relocation market for which Centract will pay the Company a license fee equal to: [i] $500 per file for the first 10,000 files opened in any calendar year, [ii] $400 per file opened for the next 10,000 files in any calendar year, and [iii] $250 per file opened in excess of 20,000 files in any calendar year. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2011 with successive two-year renewal terms. On renewal, the license fee during such renewal period will be equal to the lower of $200 per file opened or the lowest fee charged by the Company to any licensee from whom the Company generates annual license fees in excess of $500. During the year ended February 28, 2006, the Company earned $9,569 in ICON licensing fees on 22,585 files opened [2005 – $7,913 in ICON licensing fees on 16,559 files opened].

   As part of the licensing agreement, Centract is to receive, at no additional cost, maintenance and technological support and normal course upgrades. Any development upgrades or modifications are provided to Centract at cost plus 20%. During the year ended February 28, 2006, the Company earned $626 [2005 – $329] in consulting revenue from development upgrades and modifications.

2. A five-year, non-transferable license with Asset Recovery, a division of Centract, which currently uses the modules of ICON in exchange for a monthly license fee equal to $50 per administrative file and $100 per home sale file. The license agreement commenced on April 13, 2004 with an initial term to March 31, 2009 with successive two-year renewal terms. During the

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

year ended February 28, 2006, the Company earned $194 in asset recovery licensing fees on 2,204 files opened [2005 – $112 in asset recovery licensing fees on 1,911 files opened].

4. SHORT-TERM INVESTMENTS

Short-term investments are comprised of a mix of corporate bonds and banker acceptances with a yield to maturity ranging from 4% to 9% and the maturity dates of the high-grade securities range from one to eight years. The market value of the Company's short-term investments as at February 28, 2006 is $19,750 [2005 – $17,662].

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2006			2005		
($)	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Computer equipment and software	**776**	**756**	**20**	760	735	25
Furniture and office equipment	**254**	**241**	**13**	254	220	34
Telephone equipment	**210**	**210**	**—**	210	178	32
Leasehold improvements	**78**	**62**	**16**	78	45	33
	1,318	**1,269**	**49**	1,302	1,178	124

During the year, amortization of $91 [2005 – $235] was charged to the statements of income and retained earnings.

6. INTANGIBLE ASSETS

Intangible assets consist of the following:

	2006			2005		
($)	**Cost**	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value
Licensing fees and other costs	**569**	**365**	**204**	569	253	316
CRM system	**5,130**	**3,028**	**2,102**	5,130	2,428	2,702
ICON system	**15,759**	**1,639**	**14,120**	5,996	781	5,215
	21,458	**5,032**	**16,426**	11,695	3,462	8,233

Gross book value of the ICON system increased by $9,763 as a result of the earn-out calculation [see *note 7*]. During the year, amortization expense totalled $1,570 [2005 – $1,919].

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

7. CAPITAL STOCK

Capital stock consists of the following:

($)		**2006**	2005
Authorized			
Unlimited preference shares issued in series			
Unlimited common shares			
Unlimited non-voting common shares			
Issued			
1,280,000	Series A preferred shares	**1,280**	1,280
22,000,000	Series B preferred shares	**22,000**	22,000
24,189	Series C preferred shares [2005 – nil]	**24**	—
3,500,000	Series D preferred shares	**3,500**	3,500
3,443,687	common shares	**3,012**	3,012
Nil	non-voting common shares	**—**	—
		29,816	29,792
To be issued			
9,763,061	Series C preferred shares [see *note 3*]	**9,763**	24

The Series A preferred shares, Series B preferred shares and Series C preferred shares are non-convertible, non-voting and redeemable by the Company for $1.00 per share after December 1, 2004. In the event of a liquidation, dissolution or wind-up of the Company, the holders of the Series A, Series B and Series C preferred shares shall be entitled to receive, before any distribution of any part of the assets of the Company among the holders of the common shares, the sum of $1.00 per Series A, B and C preferred share and no more. The par value of the Series A, Series B and Series C preferred shares is $1.00 per share.

The holder of the Series A preferred shares and Series B preferred shares is entitled to receive, if declared by the Board of Directors of the Company, a fixed preferential cumulative quarterly dividend of 2.25% of the redemption value of the Series A preferred shares and Series B preferred shares.

The holder of the Series A preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of 0.64% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. The annual Series A participation dividend declared for the year ended February 28, 2006 was $23 [2005 – $23].

The holder of the Series B preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 11% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.25% noted above, with the first such annual dividend accruing for the year ended February 28, 2003. The annual Series B participation dividend declared for the year ended February 28, 2006 was $394 [2005 – $374].

The holder of the Series C preferred shares is entitled to receive, if declared by the Board of Directors of the Company, a fixed preferential cumulative quarterly dividend of 2.5% of the redemption value of the Series C preferred shares.

The holder of the Series C preferred shares is also entitled to receive a cumulative aggregate preferential annual participation dividend of up to 9.25% of the Company's annual consolidated net income before tax calculated in accordance with Canadian GAAP, less a fixed preferential cumulative quarterly dividend of 2.5% noted above, with the first such annual dividend accruing for the year ended February 28, 2005. The annual Series C participation dividend declared for the year ended February 28, 2006 was $1 [2005 – nil].

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]
February 28, 2006

As outlined in note 3 under the terms of the agreement to purchase ICON, the Company will issue one Series C preferred share at a par value of $1.00 per share with a cumulative quarterly dividend of 2.5% and cumulative aggregate preferential annual participation dividend of 9.25% of pre-defined consolidated pre-tax income of the Company. For the year ended February 28, 2006, the Company earned $9,763 in licensing revenue from Centract and accordingly, 9,763,061 of Series C preferred shares will be issued subsequent to year-end [2005 – 24,189 of Series C preferred shares were issued subsequent to year-end]. As well, an amount in cash of $2,048 [2005 – $2] equal to the aggregate dividend that would have been received by Centract if Centract had received the Series C preferred shares to be issued on April 13, 2004 will be paid subsequent to year-end.

Provided the Company has previously redeemed the Series A preferred shares, the Series B preferred shares and the Series C preferred shares, the Company may redeem the Series D preferred shares at any time after December 1, 2005 upon payment of $1.00 for each share redeemed.

The Series D preferred shares will entitle the holder thereof to receive, if declared by the Board of Directors, a fixed preferential non-cumulative annual dividend of 3.50% of the redemption value of the Series D preferred shares payable at the discretion of the Board of Directors with such dividend payable [if declared] on the last day of February in each year.

The holder of the Series D preferred shares shall have the right, exercisable at any time and from time to time, to convert each Series D preferred share into one non-voting common share, subject to adjustment. The Series D preferred shares shall automatically convert into non-voting common shares on the basis of one Series D preferred share into one non-voting common share in the event that the Cumulative Net Income ["CNI"] of the Company exceeds $12,000, where CNI means the cumulative consolidated net income before tax of the Company calculated in accordance with Canadian GAAP since April 12, 2004. Provided the Company has previously redeemed the Series A preferred shares, the Series B preferred shares and the Series C preferred shares, the Company may redeem the Series D preferred shares at any time after December 1, 2005 upon payment of the sum of $1.00 for each share to be redeemed. Upon receipt of a notice from the Company to redeem all or any portion of the Series D preferred shares, the holder of each Series D preferred share shall have the right, exercisable at any time not less than five days prior to such redemption date, to convert such number of Series D preferred shares as are subject to the redemption notice. CNI as at February 28, 2006 was $12,264. The par value of the Series D preferred shares is $1.00 per share.

The common shares have no par value and entitle the holder to one vote per common share held.

Earnings per share

Basic earnings per share has been calculated using the weighted average number of common shares outstanding of 3,443,687 for both the years ended February 28, 2006 and 2005. Diluted earnings per share for the year as summarized in the table below was calculated using the weighted average number of common shares outstanding of 6,943,687 [2005 – 6,512,180] to take into effect the conversion of Series D preferred shares into non-voting common shares on April 12, 2005.

($)	**2006**	2005
Net income for the year	**7,439**	8,846
Dividends paid on preferred shares	**(4,688)**	(2,527)
Basic earnings available to common shareholders	**2,751**	6,319
Adjustment to net income on conversion of Series D preferred shares	**123**	107
Diluted net income available to common shareholders	**2,874**	6,426

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

8. INCOME TAXES

Total income tax expense varies from the amount that would be computed by applying the statutory income tax rate to income from operations before income taxes for the following reasons:

($)	**2006**	2005
Statutory income tax rate	**36.12%**	36.12%
Provision for income taxes based on income from operations before income taxes	**2,759**	2,039
Permanent differences	**1**	1
Portion of capital gains not taxed	**(44)**	—
Increase in valuation allowance	**597**	343
Future tax assets not previously recognized for accounting	**(3,113)**	(5,583)
Provision for (recovery of) income taxes	**200**	(3,200)

Significant components of the Company's future tax assets as at February 28, 2006 and 2005 are as follows:

($)	**2006**	2005
Future tax assets		
Tax loss carryforwards	**19,440**	23,308
Tax asset values in excess of accounting values	**4,899**	4,578
	24,339	27,886
Less valuation allowance	**21,339**	24,686
Net future tax assets		
Current	**3,000**	2,660
Long-term	**—**	540

The Company has recognized future tax assets of $3,000 based on the current estimate of taxable income that will be available in the future loss carryforward periods.

As at February 28, 2006, the Company has approximately $24,300 in federal and provincial capital losses. In addition, the Company has federal non-capital tax losses of $38,776 and $46,246 in provincial non-capital tax losses. Capital losses can be carried forward indefinitely and used by the Company to offset any future capital gains. Non-capital losses may be carried forward to reduce future years' taxable income. These non-capital tax losses expire as follows:

($)	**Federal**	**Provincial**
2007	2	2
2008	9,308	9,308
2009	16,144	16,144
2010	10,446	17,916
Thereafter	2,876	2,876
	38,776	46,246

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

9. LEASE COMMITMENTS

The future minimum annual lease payments under operating leases for premises and office equipment are with a related party and are as follows:

($)	
2007	51
2008	46
2009	46
2010	46
2011	46
	235

10. FINANCIAL INSTRUMENTS

Fair values

The carrying values reported in the balance sheets for cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The fair value of the short-term investments, which are comprised of high-grade securities, is $19,750.

Interest rate and credit risks

The yield to maturity of the bonds ranges from approximately 4% to 9% and the maturity dates of the high-grade securities range from one to eight years.

The Company mitigates its exposure to interest rate and credit risks by restricting investments to high-grade securities and limiting the amount of investment in any single security to 20% of the Company's total investment portfolio.

11. RELATED PARTY TRANSACTIONS

The Company had the following transactions with a related party of a significant shareholder in the Company. The related party became a significant shareholder in fiscal 2003 as a result of exchanging 100% ownership of Home-Link for 1,652,906 common shares and 1,280,000 Series A preferred shares of the Company. In addition, during fiscal 2003, the shareholder also subscribed for 20,000,000 Series B preferred shares for cash proceeds of $20 million. These transactions have been recorded at the exchange amount, which is the amount agreed to between the parties except where otherwise noted.

($)	**2006**	2005
Sales	**10,443**	8,513
Expenses		
Management fee and cost reimbursement	**402**	576
Rent	**78**	105
Preferred share dividends	**4,688**	2,527
Proceeds on disposal of property, plant and equipment	**—**	15

As at February 28, 2006, the Company had accounts receivable of $763 [2005 – $1,035], dividends payable of $2,916 [2005 – $842], accounts payable of $126 [2005 – $166] and deferred revenue of nil [2005 – $56] due to related parties.

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

12. ECONOMIC DEPENDENCE

For the year ended February 28, 2006, the Company derived $10,443 or 99.8% of its sales from Centract.

13. STATEMENTS OF CASH FLOWS

Non-cash working capital balances

The net change in non-cash working capital balances related to operations consists of the following:

($)	**2006**	2005
Accounts receivable	**321**	(766)
Prepaid expenses and other assets	**(35)**	(44)
Accounts payable and accrued liabilities	**(2)**	49
Income and other taxes payable	**8**	—
Deferred revenue	**(56)**	(31)
	236	(792)

14. CONTINGENCIES

In the ordinary course of business, the Company may be contingently liable for litigation and claims with customers and suppliers. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the potential costs and losses, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the financial position of the Company.

15. SEGMENTED REPORTING

General description

The Company has four reportable operating segments: ICON, Home-Link, Software Development and Licensing and General and Administration.

ICON is a customizable software application that manages all aspects of a residential home relocation service. Software Development and Licensing includes the Company's co-ownership of the CALMS software solution and the ongoing development and application of proprietary software solutions. Home-Link provides services to buyers and sellers throughout the home purchasing and selling cycle through a proprietary software solution. General and Administration provides support to the three reporting segments, and manages the Company's public reporting, compliance and investment activities.

The Company's President and Chief Executive Officer ["CEO"] has been identified as the chief operating decision maker in assessing the performance of the segments and the allocation of resources to the segments. Each reportable segment is managed separately with each segment manager reporting directly to the CEO. Contribution margin represents the primary financial measure used by the CEO in assessing performance and allocating resources, and includes cost of sales, and selling, general and administrative expenses, for which the segment managers are held accountable. The CEO does not review asset information on a segmented basis in order to assess performance and allocate resources.

NOTES TO FINANCIAL STATEMENTS

[All dollar amounts are in thousands, except per share amounts and where otherwise noted]

February 28, 2006

($)	**2006**	2005
Sales		
ICON	**10,388**	8,353
Home-Link	**79**	225
Software Development and Licensing	**—**	30
Total	**10,467**	8,608
Contribution margin		
ICON	**9,397**	7,557
Home-Link	**(393)**	(630)
Software Development and Licensing	**(283)**	(203)
General and Administration	**(784)**	(650)
	7,937	6,074
Investment income	**1,119**	936
Gain on sale of short-term investments	**244**	809
Amortization of property, plant and equipment	**(91)**	(235)
Amortization of intangible assets	**(1,570)**	(1,919)
Interest expense	**—**	(19)
Income from operations before income taxes	**7,639**	5,646

16. SUBSEQUENT EVENTS

Subsequent to year-end, on May 17, 2006, Homeserve issued 9,763,061 Series C preferred shares in accordance with the earn-out calculation of the ICON Transaction. In addition, in accordance with the terms of the ICON Transaction, 100% of Homeserve's 3,500,000 Series D preferred shares were converted into non-voting common shares.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Joseph S. Freedman
Chairman of the Board
Homeserve Technologies Inc.

James B. Dunbar
President &
Chief Executive Officer
Homeserve Technologies Inc.

William J. Danis

Jason D. Meretsky

Donald W. Paterson

SENIOR MANAGEMENT

James B. Dunbar
President &
Chief Executive Officer

Kevin Cash
Chief Financial Officer

Max M. Cohen
General Counsel & Secretary

CORPORATE HEADQUARTERS

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AUDITORS

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Toronto, Ontario
M5K 1J7

REGISTRAR & TRANSFER AGENT

Computershare Investor Services
151 Front Street
8th Floor
Toronto, Ontario
M5J 2N1

STOCK LISTING

The Company's shares are currently unlisted.

INVESTORS RELATIONS

Requests for a copy of the Annual Report or additional corporate materials should be directed to:

Mansfield Communications Inc.
Attention: Kate Langan

Tel: (416) 599-0024
kate@mcipr.com